

Restaurant Brands(QSR)

\$63.15 (As of 02/06/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: C

Momentum: A

Summary

Although shares of Restaurant Brands have underperformed the industry in the past year but solid expansion efforts, various sales-building strategies and focus on franchise business model are likely to drive growth. Furthermore, Restaurant Brands is optimistic about its strategies that are likely to drive comparable sales and profitability for all three iconic brands in the long run. Also, it is presently testing a loyalty program in Canada across different markets. Earnings estimate for 2020, have witnessed upward revisions over the past 60 days. Nonetheless, competition and increased labor wages might hurt profits. Currently, the company has limited influence over its franchisees. Consequently, its ability to control restaurants' operations, and implement operational initiatives and business strategies are restricted.

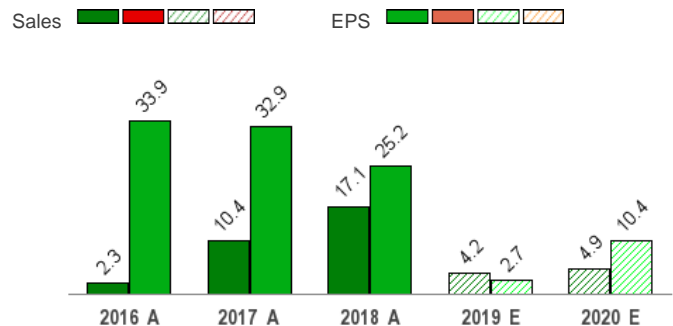
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$79.46 - \$60.58
20 Day Average Volume (sh)	2,280,640
Market Cap	\$18.9 B
YTD Price Change	-1.0%
Beta	1.19
Dividend / Div Yld	\$2.00 / 3.2%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 23% (58 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/10/2020
Earnings ESP	-1.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,342 E	1,470 E	1,526 E	1,529 E	5,859 E
2019	1,266 A	1,400 A	1,458 A	1,461 E	5,584 E
2018	1,254 A	1,343 A	1,375 A	1,385 A	5,357 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.62 E	\$0.75 E	\$0.80 E	\$0.82 E	\$2.98 E
2019	\$0.55 A	\$0.71 A	\$0.72 A	\$0.73 E	\$2.70 E
2018	\$0.66 A	\$0.66 A	\$0.63 A	\$0.68 A	\$2.63 A

*Quarterly figures may not add up to annual.

P/E TTM	23.7
P/E F1	21.2
PEG F1	2.3
P/S TTM	3.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

Based in Canada, Restaurant Brands International Inc. or RBI is one of the world's largest quick service restaurant companies.

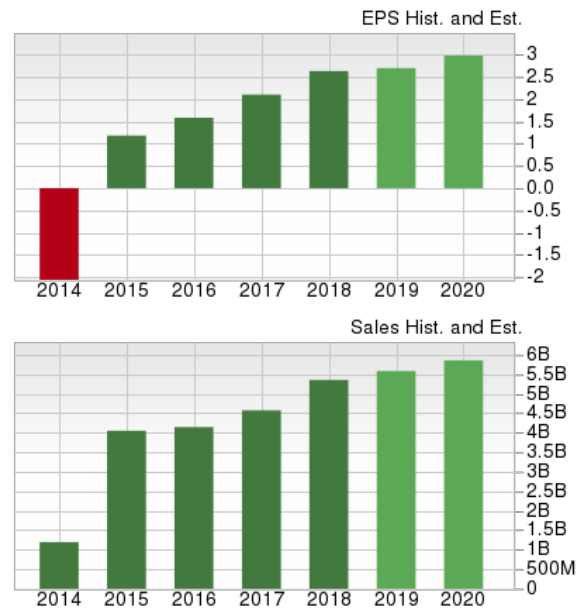
Formed on Aug 25, 2014, the company came into existence with the merger of Canadian coffee shop and restaurant chain – Tim Hortons Inc. – and American fast food restaurant chain –Burger King Worldwide Inc. It is now the parent company to these two iconic quick-service restaurant brands. On Mar 27, 2017, Restaurant Brands acquired quick service restaurant chain, Popeyes Louisiana Kitchen, for \$79.00 per share in cash, or \$1.8 billion.

These independently-operated brands have been serving their respective customers, franchisees and communities customers for more than 40 years and have similar franchise business models with complementary daypart mixes.

Restaurant Brands has three operating and reportable segments: Tim Hortons, Burger King and Popeye's Louisiana Kitchen. As of Mar 31, 2019, the company owned or franchised in excess of 25,000 restaurants in more than 100 countries and U.S. territories.

While the Tim Hortons brand maintains a strong base of restaurants across Canada, the United States and the Middle East; Burger King mostly serves customers in the United States and in markets outside. Popeye's Louisiana Kitchen operates restaurants in the United States and 25 other countries.

Restaurant Brands generates revenues from four primary sources: (i) sales to franchisees associated with the company's supply chain operations, including manufacturing, procurement, warehousing and distribution, as well as sales to retailers; (ii) franchise revenues, consisting mainly of royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees; (iii) property revenues from properties it leases or subleases to franchisees; and (iv) sales at company-owned restaurants.



Reasons To Buy:

▲ **Leveraging Three Strong Brands:** Restaurant Brands' quick service restaurant ("QSR") segment includes three iconic brands, each of which has a rich heritage, a unique value proposition, and significant growth potential. The QSR segment has witnessed solid growth, which is evident from high demand of franchisees. The company is optimistic about its strategies that could drive comparable sales and profitability for all three iconic brands in the long run. Among the three brands, Tim Hortons is one of the largest restaurant chains in North America and the largest in Canada and is known for its coffee and donuts. Meanwhile, Burger King restaurants appeal to a wide spectrum of consumers, with multiple dayparts and product platforms appealing to diverse customer groups. With over 60 years of operating history, Burger King has developed a scalable and cost-efficient QSR hamburger restaurant model that provides guests fast and delicious food. Popeyes too is one of the leading quick service restaurant chicken concepts in the world. It reported its strongest comparable sales growth of 9.7% during the third quarter, after nearly two decades.

Various sales-boosting initiatives undertaken by the company coupled with its solid expansion efforts should drive growth

▲ **Solid Expansion Efforts:** Restaurant Brands believes that there is a huge opportunity to grow all its brands around the world by expanding its presence in existing markets as well as entering new markets. The company's expansion efforts drove consolidated systemwide sales by approximately 8%. Currently, it has more than 26,000 restaurants worldwide, which includes more than 18,000 restaurants at Burger King. Restaurant Brands also continues to evaluate opportunities to speed up international development of all the three brands by establishing master franchisees with exclusive development rights as well as joint ventures with new and existing franchisees.

Furthermore, the company is confident about the Tim Hortons brand's long-term growth prospects and remains committed to deliver on its international growth strategy of expanding the brand worldwide. Despite witnessing comps decline at this segment during third-quarter 2019, the brand remains confident of its Winning Together plan. In addition, the prospects of the company's business in Canada appear bright. Evidently, the company has formed master franchise joint venture partnerships (MFJVs) for the brand in Mexico and Spain. Moreover, the company is optimistic about the major expansion opportunity that lies ahead for the brand in the United States.

The regions where the company has signed development agreements include Cincinnati, Columbus, Indianapolis, Minneapolis, Cleveland and Youngstown. As part of its international growth strategy for Burger King, the company has created strategic master franchise joint ventures in various markets across Europe, the Middle East and Africa ("EMEA"), Asia Pacific ("APAC") and Latin America and the Caribbean ("LAC") and received a meaningful minority equity stake in each joint venture. It has also entered into master franchise and development agreements in a number of markets across these regions, including Japan, France, Russia, Brazil, Spain, Belgium, China, Turkey and Korea.

▲ **Re-imaging Restaurants & Innovating Menu to Boost Sales:** Restaurant Brands continues to focus on improving its level of service through comprehensive training, improved restaurant operations, reimagining efforts and attractive menu options to enhance overall guest satisfaction, and thereby drive comps. Restaurant Brands believes that new product development is a key driver of long-term success for its brands and will continue to be in focus in 2018 and beyond. This is expected to drive traffic by expanding the customer base, spreading out into new dayparts, and continuing to build brand leadership in food quality and taste. The company plans a nutritious kids menu in the remainder of 2018. During the third quarter, the company reinvented its donut line up with premium donuts that include maple bacon dream donut and the PB&J dream donut. It also plans to roll out these dream donuts across Canada. The company also introduced nitro bar that features nitro cold brew and nitro iced teas, and will be testing its Nitro Line in a few urban locations in the early part of 2020.

The company has an unwavering focus on its goal to drive traffic and revenues at its restaurants through core product platforms, a continual focus on a balanced menu design, expansion of delivery business, promotional offerings, efforts to grow breakfast daypart and product launches. Growth across each of its breakfast, lunch and dinner dayparts, supported by new products is driving incremental sales at Tim Hortons restaurants. Its coffee, cold beverage, wraps and breakfast sandwich platforms, particularly continue to reflect strength.

Restaurant Brands is also taking initiatives to re-image its restaurants to a more modern décor. In March 2018, Restaurant Brands announced a new Tim Hortons restaurant design called the welcome image, which entails a redesign of Tim Hortons restaurants. The company plans to re-image a majority of its restaurants across Canada over the next four years. In 2018, the company completed around 400 renovations under the welcome image and expects completing several hundreds of more renovations in every year.

▲ **The Success of Loyalty Program:** Restaurant Brands' loyalty program, Tim's Rewards, is gaining popularity. The company said that following a rapid ramp-up phase, nearly half of the customers pay through Tim's Rewards. More than 7 million people is using the loyalty program every month. Also, Restaurant Brands is presently testing a loyalty program in Canada across different markets as high loyalty card adoption rates have been witnessed in these test markets. Moreover, it plans to integrate loyalty cards into the digital channel, basically through their mobile app.

▲ **Robust Strategy at Burger King:** Restaurant Brands has a solid strategy at Burger King that focuses on enhancing restaurant image, technology, operations and marketing. This strategy is likely to drive sustainable comps over the long run. As of now, the company has made significant progress with respect to remodeling and modernizing its restaurants in the United States. Also, healthy progress on other technology-related initiatives at Burger King has been realized in this quarter. Furthermore, Restaurant Brands launched Burger King mobile order and pay app in the United States. The company continues to expand the size of its delivery program, with availability in nearly 3,500 restaurants in the United States and more than 8,700 restaurants worldwide. Notably, during third-quarter 2019, the brand achieved its highest comparable sales growth since 2015. Comps grew 4.8% compared with 1% rise in the prior-year period.

Reasons To Sell:

- ▼ **Franchised Model Restricts Operational Implementation:** Although the company's fully-franchised model has a lot of positives, it also has its share of drawbacks and risks. Under this business model, the company's prospects depend on its ability to attract new franchisees for all its brands, and the willingness of franchisees to open restaurants in the existing and new markets. The company also has limited influence over its franchisees, as a result of which its ability to control restaurants' operations, and implement operational initiatives and business strategies is restricted.
- ▼ **Cutthroat Competition:** Competition among fast-casual, quick-service and casual dining segments of the restaurant industry is expected to remain fierce with respect to price, food quality, service, location and concept, which may adversely impact Restaurant Brands' revenues.
- ▼ **Industry Susceptible to Consumer Discretionary Spending:** QSR operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macro-economic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

Greater dependence on franchisees, intense competition and tricky consumer demand are potential headwinds.

Last Earnings Report

Restaurant Brands Q3 Earnings Match Estimates, Up Y/Y

Restaurant Brands International, reported mixed third-quarter 2019 results, wherein earnings were in line with the Zacks Consensus Estimate but revenues lagged the same.

The company's adjusted earnings came in at 72 cents per share, which grew 14.3% from the year-ago quarter. This uptick can be primarily attributed to consistent improvement in Restaurant Brands' top line.

Total revenues were \$1,458 million, which lagged the consensus mark of \$1,462 million. Its top line missed the consensus estimate after beating the same in the preceding three quarters. However, the metric improved 6% from the year-ago quarter figure, courtesy of increased system-wide sales across its brands.

Notably, Restaurant Brands looks forward to open its first super urban location. It continues making progress on its key investment project that includes remodeling pipelines and construction projects.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	-0.28%
EPS Surprise	0.00%
Quarterly EPS	0.72
Annual EPS (TTM)	2.66

Segmental Revenues

Restaurant Brands operates through three segments — Tim Hortons, Burger King and Popeye's Louisiana Kitchen.

Revenues at **Tim Hortons** totaled \$881 million compared with \$854 million in the prior-year quarter. However, system-wide sales declined 1.1% from the prior-year quarter. Comps at this segment decreased 1.4% compared with 0.6% decline in the prior-year quarter. Nonetheless, the brand remains confident of its Winning Together Plan and prospects of the business in Canada appear bright.

Burger King's revenues grew from \$416 million in third-quarter 2018 to \$457 million in the quarter under review, mainly driven by increased franchise and property revenues. Also, system-wide sales rose 8.4% from the year-ago quarter. Notably, system-wide sales improvement was 10.7% compared with 7.8% in the prior-year quarter, owing to net restaurant growth of 5.8%. The brand achieved its highest comparable sales growth since 2015 during the quarter, wherein comps grew 4.8% from 1% rise in the prior-year period.

Popeye's Louisiana Kitchen, which was acquired on Mar 27, 2017, reported revenues of \$120 million compared with \$105 million in the year-ago quarter. System-wide sales rose 15.4% from the prior-year period, owing to net restaurant growth of 5.6% and 9.7% rise in comps. Notably, system-wide sales growth compared favorably with the prior-year quarter's 7.9% increase. Popeye's also reported its strongest comparable sales growth of 9.7% after nearly two decades. This compares favorably with year-ago quarter's increase of 0.5%.

Operating Performance

In the quarter under review, the company's adjusted EBITDA rose 5.4% on an organic basis, driven by system-wide sales growth. Segment-wise, Tim Horton's EBITDA rose 0.7% from the year-ago period. Burger King's EBITDA also grew 10% year over year. Popeye's EBITDA was up 12.3% from a year ago.

Cash and Capital

Restaurant Brands ended the third quarter with cash and cash equivalent balance of \$1,732 million. As of Sep 30, 2019, its total debt was \$12.8 billion. The company's board of directors declared a dividend of \$0.5 per common share for fourth-quarter 2019, payable on Jan 3, 2020 to its shareholders of record at the close of business as of Dec 17, 2019.

Valuation

Restaurant Brands' shares are up 0.7% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector have gained 16.9% and 20.1%, respectively.

The S&P 500 index is up 22.6% in the past year.

The stock is currently trading at 21.01x forward 12-month Price to Earnings value, which compares with 24.6x for the Zacks sub-industry, 24.86x for the Zacks sector and 19.17x for the S&P 500 index.

Over the past five years, the stock has traded as high as 43.35x and as low as 18.3x, with a 5-year median of 26.05x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$66 price target reflects 22.9x forward 12-month Price to Earnings value.

The table below shows summary valuation data for QSR.

Valuation Multiples - QSR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.01	24.6	24.86	19.17
	5-Year High	43.35	26.41	26.2	19.34
	5-Year Low	18.3	20.45	19.07	15.18
	5-Year Median	26.05	23.25	22.96	17.46
P/S F12M	Current	3.2	3.55	1.07	3.55
	5-Year High	3.89	3.85	1.1	3.55
	5-Year Low	1.64	2.91	0.8	2.54
	5-Year Median	2.68	3.25	0.91	3
EV/EBITDA TTM	Current	13.37	16.29	15.29	11.95
	5-Year High	22.77	17.48	15.37	12.85
	5-Year Low	10.72	12.09	10.79	8.49
	5-Year Median	14.53	13.97	12.38	10.66

As of 02/06/2020

Industry Analysis Zacks Industry Rank: Top 23% (58 out of 255)



Top Peers

Arcos Dorados Holdings Inc. (ARCO)	Neutral
Bloomin Brands, Inc. (BLMN)	Neutral
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral
Chipotle Mexican Grill, Inc. (CMG)	Neutral
Dominos Pizza Inc (DPZ)	Neutral
Brinker International, Inc. (EAT)	Neutral
Mitchells & Butlers Plc (MBPFF)	Neutral
Yum! Brands, Inc. (YUM)	Neutral

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	QSR Neutral	X Industry	S&P 500	BLMN Neutral	CMG Neutral	YUM Neutral
VGM Score	B	-	-	B	B	B
Market Cap	18.86 B	432.68 M	24.40 B	1.81 B	23.80 B	31.38 B
# of Analysts	11	5.5	13	6	16	10
Dividend Yield	3.17%	0.00%	1.75%	1.92%	0.00%	1.62%
Value Score	C	-	-	A	D	D
Cash/Price	0.10	0.03	0.04	0.03	0.03	0.02
EV/EBITDA	14.13	15.30	14.17	10.96	54.55	16.81
PEG Ratio	2.29	2.09	2.05	1.25	2.43	2.06
Price/Book (P/B)	4.63	3.05	3.31	11.96	14.15	NA
Price/Cash Flow (P/CF)	10.95	11.62	13.63	5.15	39.02	25.69
P/E (F1)	21.35	22.38	19.08	12.26	46.78	25.26
Price/Sales (P/S)	3.42	0.93	2.67	0.44	4.26	5.61
Earnings Yield	4.72%	4.40%	5.24%	8.14%	2.14%	3.96%
Debt/Equity	3.18	0.94	0.71	15.62	1.59	-1.26
Cash Flow (\$/share)	5.77	1.53	6.89	4.05	21.96	4.04
Growth Score	C	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	29.98%	7.71%	10.80%	7.11%	-6.46%	0.29%
Proj. EPS Growth (F1/F0)	10.45%	8.48%	7.23%	8.12%	30.40%	15.69%
Curr. Cash Flow Growth	19.29%	7.67%	9.51%	4.05%	34.05%	3.60%
Hist. Cash Flow Growth (3-5 yrs)	32.62%	6.24%	8.55%	2.17%	1.62%	-11.09%
Current Ratio	1.09	0.62	1.20	0.27	1.61	0.99
Debt/Capital	76.05%	61.12%	42.90%	93.98%	61.41%	NA
Net Margin	11.64%	3.14%	11.76%	2.75%	6.27%	23.12%
Return on Equity	32.20%	8.47%	16.98%	89.62%	25.14%	-13.90%
Sales/Assets	0.26	1.16	0.54	1.27	1.16	1.14
Proj. Sales Growth (F1/F0)	4.92%	3.57%	4.15%	1.92%	12.43%	4.16%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	0.08%	0.04%	-0.11%	-0.24%	0.35%	-2.85%
1 Week Price Chg	-5.03%	-1.41%	-2.60%	-2.72%	-0.34%	0.75%
4 Week Price Chg	0.53%	0.00%	1.51%	-6.16%	-0.66%	0.76%
12 Week Price Chg	-6.15%	0.00%	5.63%	-9.69%	14.39%	5.74%
52 Week Price Chg	1.35%	0.62%	17.01%	8.92%	46.30%	9.65%
20 Day Average Volume	2,280,640	234,188	1,961,054	773,159	372,223	1,934,349
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	1.80%	-0.61%
(F1) EPS Est 4 week change	0.21%	0.00%	-0.00%	-0.42%	2.99%	-1.20%
(F1) EPS Est 12 week change	0.46%	0.00%	-0.16%	-0.27%	4.07%	-1.20%
(Q1) EPS Est Mthly Chg	0.20%	0.00%	0.00%	0.99%	-5.53%	0.11%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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